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C O N F I D E N T I A L SECTION 01 OF 03 PRETORIA 000762

SIPDIS

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TAGS: [ENRG](#) [KNNP](#) [TRGY](#) [CH](#) [FR](#) [SF](#)

SUBJECT: SOUTH AFRICA: UPDATE ON PBMR

REF: A. 04 PRETORIA 2956

[1](#)B. 04 PRETORIA 1124

Classified By: ECON M/C J. Jeff Hartley, Reason: E.O. 12958 1.4 (b) and (d)

[1](#)1. (C) Summary. PBMR, Ltd. executives told Econoff that their project would not be sidelined by a recent court decision requiring the Department of Environment and Tourism to enter into another round of stakeholder consultations on an environmental impact assessment concerning their pebble bed modular nuclear reactor project. With the financial and political support of the government and a new leadership team in place, PBMR was plowing ahead with the design and engineering phase. All thirteen design and engineering contracts had been signed and now there was a renewed effort to attract more investors. The lead in government would be transferred to Public Enterprises Minister Alec Erwin, who had publicly stated recently that South Africa intended to generate 4000-5000 MW of electric power from pebble bed reactors. The executives were anxious to engage U.S. national energy laboratories on research and development programs, and the U.S. National Nuclear Regulator on licensing issues. They also discounted recent press reports that the Chinese pebble bed project was ahead of theirs. End Summary.

Not Sidelined By Court Decision

[1](#)2. (C) PBMR, Ltd. executives met with Econoff via telephone conference to discuss progress on the pebble bed modular reactor after a Western Cape court ordered the Department of Environment and Tourism (DEAT) to reopen its environmental impact assessment (EIA) regarding the Koeberg site. The executives included Westinghouse Senior Vice President and Chief Technology Officer Regis Matzie, Westinghouse Nuclear Plant Projects Manager Edward Schmiech, PBMR Power Plant Delivery Director Dieter Matzner, and PBMR Manager for Modular Dynamics Willem Kriel. The executives told Econoff that they did not see how the reopening of the EIA would delay PBMR efforts at this point, since the project was still in the design, testing, and engineering phase. Construction would not begin before 2007 on a demonstration reactor to come on-line in 2010. PBMR anticipated commercial sales to begin in 2013. In fact, they were pleased that DEAT had decided not to appeal the court's decision, opting instead to simply include another round of stakeholder consultations as the court had ordered. This worked in PBMR's favor, as it provided resolution to the court challenge and allowed DEAT to get on with modifying its EIA procedures and completing the EIA for PBMR by the end of the year. PBMR had requested two separate legal advisories before sitting down with DEAT and Eskom to decide on a final EIA approach before end of March.

South African Government Lends Full Support

[1](#)3. (C) Since April 2004 when the South African Government declared PBMR a national strategic project, PBMR has been undergoing a number of significant changes. In August 2004, Jaco Kriek, Vice President for Mega Projects at the Industrial Development Corporation (IDC), was seconded to PBMR to become its new CEO, replacing Nic Terblanche who assisted with the transition as Chief Operating Officer before retiring. Kriek brings a strong project financing background and obvious connections to the IDC and the Department of Trade and Industry (DTI), to which the IDC reports. PBMR executives told Econoff that the IDC would soon assume lead investor status from Eskom Enterprises. Also in August, DTI Director General Alistair Ruiters was appointed Chairman of PBMR's Board, giving the company direct access to the upper reaches of South African Government.

[1](#)4. (C) In October 2004, the government put its money where its mouth was when it allocated R500 million to sustain PBMR through March 2005. PBMR executives have been told that this level of financial support would be extended over the next 2-3 years when Finance Minister Trevor Manuel delivered this year's budget to Parliament on February 23. While the plan was for the South African Government to maintain at least a 51% shareholding in PBMR, IDC's shareholding would increase as Eskom Enterprises decreased to about 5%. Room would also

be made for a 10% Black Economic Empowerment investor. British Nuclear Fuels' (BNFL), the company to which Westinghouse belongs, would retain a 25% interest, but shareholdings for all could vary as new investors are brought in.

15. (C) Governmental oversight of PBMR would be transferred from the Department of Minerals and Energy to the Department of Public Enterprises (vice the Department of Trade and Industry, as earlier believed). Minister of Public Enterprises Alec Erwin, formerly Minister of Trade and Industry and well known as one of President Mbeki's most effective cabinet members, would take the point position. Recently, Erwin publicly assured PBMR that the government planned to generate 4000-5000 MW of electric power from pebble bed reactors. This equated to 13-17 300 MW reactors, a crucial first market and enough to bring PBMR substantially down its learning and cost curves as it embarked on commercial production.

Renewed Campaign for Investors

16. (C) PBMR executives said that the South African Government's political, financial, and market support made it much easier for them to approach potential investors. PBMR sought two to four serious investors to take up to 40% of the company. In preparation, it had contracted HSBC and Rand Merchant Bank to produce an investor information memorandum and prospectus to potential investors. Matzie said that a consortium of local banks had already shown interest. In addition, investing suppliers/vendors would be given the right to match competing bids on PBMR contracts. Finally, the South African Government had added PMBR to its offset program, thus encouraging defense contractors and Eskom suppliers (such as GE, Westinghouse, Mitsubishi Heavy Industries, and GEC Alstom) to seriously consider PBMR as a way to satisfy offsets generated by large contracts with the South African Government. Matzie said that the potential offset investment pool totaled some R20 billion (or \$3 billion). (Note: Matzie added that, at this point, it seemed clear that the hard bargaining AREVA (France) would not invest in PBMR.)

All Supplier Contracts Signed

17. (C) PBMR executives told Econoff that PMBR had already signed all thirteen major supplier contracts for detailed design and engineering work. This included a recently signed contract with Mitsubishi Heavy Industries for the basic design and research and development of the helium driven turbo generator system and the core barrel assembly, as well as a R260 million contract with IST Nuclear for the detailed design of three key systems: fuel handling and storage, reactivity control and shutdown system, and gas systems. In addition, the Nuclear Energy Corporation of South Africa (NECSA) started construction of a helium test facility at Pelindaba in December 2004, with a completion date of April 2006. The executives said that the University of the Northwest (formerly Potchefstroom University) should have its heat transfer test facility operating by then. To accommodate the ramp up in design and engineering, PBMR planned to move to a new building on Route 21 near the international airport that would accommodate a staff of 700.

PBMR Wants to Use U.S. R&D Agreements

18. (C) Since the project was moving into a testing phase, PBMR executives wanted to take advantage of U.S.-South African R&D agreements on nuclear energy and nuclear materials safeguards technology as soon as they were signed. PBMR executives thought that such agreements would facilitate testing and research at Idaho National Laboratory in Idaho Falls and Oak Ridge National Laboratory in Tennessee. PBMR told Econoff that they would press the South African government to move forward on these agreements. In fact, Matzie called back later to tell Econoff that CEO Jaco Kriek had agreed to ask Public Enterprises Minister Alec Erwin on February 21 to take it up with Minerals and Energy Minister Phumzile Mlambo-Ngcuka as soon as possible.

Construction License

19. (C) The authority to grant the construction license to PBMR rested with the South African National Nuclear Regulator (NNR). While NNR was not required by law to conduct public consultations, it wanted to incorporate some level of public participation into the process. PBMR planned to press NNR to start the process soon, but knew that it would have to wait for a new NNR CEO to be installed. Former CEO Luisa Zondo departed at the end of 2004 and her successor would soon be announced. PBMR executives told Econoff that the chosen person, to be installed on April 1, was "knowledgeable and

supportive" of PBMR.

U.S. Licensing Effort

¶10. (C) In November 2004, PBMR convened the first meeting of its U.S. business advisory group, comprising seven top electric utilities accounting for over 50% of the nuclear power capacity in the U.S. The group agreed to meet every six months. Senate Energy Committee staffer Peter Lyons was also to have been a member of this group, but he pulled out after he was named to become a Nuclear Regulatory Commissioner.

¶11. (C) Also in November 2004, PBMR executives delivered a two-hour presentation to members of the Nuclear Regulatory Commission (NRC) in an effort to initiate a "pre-application review" during 2005. The NRC told PBMR that it faced a number of U.S., Canadian, and French company applications over the next 12-18 months, which would stretch NRC resources on major planning and policy issues. PBMR executives believed that a higher political profile for PBMR would make the NRC more responsive to its needs.

The Chinese Connection

¶12. (C) PBMR executives bristled at local newspaper reports that the Chinese pebble bed project had overtaken that of South Africa. They had visited China in September, talked monthly with scientists at Tsinghua University, and were very familiar with the Chinese effort. They felt that without a design on the table, the Chinese 5-year timetable was unrealistic. Nonetheless, there was room for cooperation between the two, and they had extended two Memorandums of Understanding to the Chinese for cooperation on technical development.

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